Green Bonds for Renewable Energy in Latin America and the Caribbean

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This paper comprehensively analyzes the overall status of the green bond market in Latin America and the Caribbean (LAC) for the renewable energy (RE) sector. In this way, regardless of all the advances in the study of green bonds, we identify a gap in the analysis of the dimension and determinants of green bonds in the renewable energy sector in the LAC region, which plays a pivotal role in the RE scene worldwide.

The RE green bond market in LAC emerged in 2014, and although slower than the broader green bond market, it has grown an average of 52% annually, with 2019 being the most active year by volume and number of deals. In fact, 38.34% of the universe of green bonds in LAC corresponds to bonds with RE-oriented funds, which makes it the primary sector by use of funds. However, in this period, only ten countries —or 30% of the countries in LAC— have issued RE green bonds. Furthermore, the market is relatively concentrated, with three countries accounting for 73% of the resources raised, namely, Brazil (47%), Mexico (14%), and Peru (10%). These results can be partly explained by new regulatory frameworks designed to facilitate the financing of sustainable investments by increasing the participation of the private sector in these countries.

Our results highlight the small presence of local governments in the RE green bond market. This suggests that regulators should be encouraged to relax barriers to local governments, as they restrict an important green bond niche. Remarkably, the resources allocated to RE by financial issuers are very small, with only 1% of the volume and 4% of the transactions. Consequently, government support for RE green bonds is crucial, as there is extraordinary potential for sovereign issuances not yet present in RE.

Despite LAC's low perception of transparency, 78% of the volume issued for RE projects and 58% of the operations have been externally reviewed. In any case, these values are slightly lower than those of the broad green bond market due to the high incidence of private placements. Remarkably, we have not found a sufficient number of post-issuance reports to allow us to provide information on this aspect in the region. In this context, it is essential to improve the presence and dissemination of such information to help dispel doubts about the final destination of the funds.

Although the presence and promotion of development finance institutions for issuing green bonds in the RE sector have greatly improved in recent years, it is necessary to continue progressing on this point. Furthermore, investors should promote a more significant commitment to training programs by companies that are already issuers, counteracting the lack of knowledge and the perceived risks regarding the costs, administrative procedures, and reputational risks that these operations entail. For that purpose, closer cooperation and alliances are essential to share responsibilities and knowledge in LAC.

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